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ABSTRACT

This paper explores the changing context for New Jersey's higher education system and implications for future access and opportunity. It highlights the state's existing major student aid programs, including how they are currently used and will be affected by future demand. Analyses are provided of contemporary approaches to addressing the issues of access, affordability, and predictability at the national and state level. After an introduction, Section 1, "Context for Change," examines the economic outlook and enrollment in higher education. Section 2, "New Jersey's Financial Aid System," describes the Tuition Aid Grant program, the Educational Opportunity Fund, and the student aid system capacity. Section 3, "Analyzing New Jersey's Current Financing Trends," presents results from analysis of trend data specific to New Jersey's overall higher education financing system and information pertaining to national trends. Section 4, "Lessons From Other States," discusses large-scale merit scholarships; prepaid tuition plans; savings plans; aid for part-time students; work-study programs; and state response to federal tax credits. Several policy recommendations are presented, including: establish a need-based financial aid program for part-time students and develop policies to maximize the benefits of federal tax credits for New Jersey families. (Contains 61 references.) (SM)

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Trust in the Future:

New Strategies for College Opportunity and Affordability in New Jersey

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APRIL 2000

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Staff recommendations, based in part on findings in this report, will be considered by the Association's Board of Directors in Fall 2000.

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Table of Contents

Executive Summary iv

Introduction 1

Context for Change 3

- Economic Outlook
- Enrollment in Higher Education

New Jersey's Financial Aid System 6

- Tuition Aid Grant (TAG) Program
- Educational Opportunity Fund (EOF)
- Student Aid System Capacity

Analyzing New Jersey's Current Financing Trends 12

Lessons from Other States 15

- Large-Scale Merit Scholarships
- Prepaid Tuition Plans
- Savings Plans
- Aid for Part-Time Students
- Work-Study Programs
- State Response to Federal Tax Credits

Policy Recommendations 21

References 25

List of Tables and Figures

Table One:
New Jersey State Appropriations for Student Aid Programs 7

Table Two:
Number and Dollar Amount of TAG Awards by Sector 8

Table Three:
TAG Award Table for 1999-2000 9

Table Four:
Comparison of Maximum and Average TAG Awards
and Average Tuition 10

Table Five:
Increases in Borrowing by State, FY 1990 to FY 1997 13

Table Six:
Shifting the Cost Burden from the State to Students 15

Figure One:
National Trends in Need- and Non-Need-Based Aid 2

Figure Two:
Shares of Overall Population Growth in New Jersey
by Race and Hispanic Origin, 1996 to 2006
..... 3

Figure Three:
Shares of Overall Labor Force Growth in New Jersey
by Sex, Race, and Hispanic Origin, 1996 to 2006 4

Figure Four:
New Jersey Undergraduate Enrollment
by Race, Fall 1993 and Fall 1998 5

Figure Five:
Distribution of TAG Awards by Income, Fall 1999 9

Figure Six:
Distribution of EOF Awards by Income, Fall 1999 11

Figure Seven:
National Increases in Average Cumulative Borrowing
by Income, 1993 to 1996 14

Executive Summary

As the nation begins the 21st century, the value of a college education to both individuals and society has never been greater. However, even as its benefits are celebrated, concerns about the rising costs of higher education are at an all-time high. While rising prices make it increasingly difficult for low-income families to afford higher education, trends in national financial aid policy have resulted in a shift of resources away from the most needy families to middle- and upper-income families.

Analysis of New Jersey's student financial aid system indicates that the state continues to demonstrate a strong commitment to helping students pay for college. That commitment is evidenced, in large part, by the continued focus on grant aid awarded through the Tuition Aid Grant (TAG) program and the Educational Opportunity Fund (EOF) program. Grant aid through these programs has reduced both the cost of attendance and the amount of borrowing by students.

Funding for need-based financial aid clearly has been a priority for New Jersey in the past. However, the question that arises is whether that priority can be maintained over the long term. The state's changing and expanding population will place growing pressures on its commitment to educational opportunity. This demographic challenge will be accompanied by an increasingly complex set of public demands on the higher education system. Access, defined as the ability to attend college, will be paramount, but affordability (whether the amount that students and their parents actually have to pay to attend college is within their reach) and predictability also will be of growing concern.

Other states and higher education institutions have used a variety of programs to enhance access, affordability, and predictability for their citizens. As a national leader in helping students finance their education, New Jersey is in a unique position to emphasize the importance of renewed state investment in higher education. The challenge for New Jersey will be maintaining its priority focus on need-based aid as demand for these programs increases and concerns about access and affordability become even greater. In order to meet this challenge, New Jersey must:

- ***Establish the New Jersey College Opportunity Trust Fund as a safeguard against the uncertainty associated with future demand.*** New Jersey has an impressive history of establishing trust funds to meet a broad array of public policy goals. The main purpose of a trust fund for higher education would be to address emerging needs and to inject stability into the higher education finance system during a time when its capacity is jeopardized by growing demand.

- ***Modify the TAG program to ensure that the neediest students continue to be served.*** In order to continue awarding meaningful grants to the neediest students, it is recommended that the scope of the TAG program be adjusted modestly. For example, eligibility for TAG assistance for those with less financial need could be phased out, allowing TAG to target the neediest populations.

- ***Establish a need-based financial aid program specifically for part-time students***. Part-time students continue to make up a significant portion of the undergraduate population. Because of projected growth in the need for college-educated workers in the labor market, it is in New Jersey's best economic interests to support this group of students. A separate need-based financial aid program would address the needs of the part-time student population without putting additional stress on the TAG program.

- ***Establish a model state work-study program that emphasizes students' educational or career goals.*** A New Jersey work-study program could have a major impact on the increasing numbers of financially needy students in the state by providing them with assistance that is related to their academic or employment goals. New Jersey should prioritize employment opportunities that are off-campus, related to students' goals, and address the economic and/or community service needs of the state. A program designed with the intent of obtaining employer matching funds will maximize the number of students that can be served with state funds. If deemed appropriate, funds from the New Jersey College Opportunity Trust Fund could be used to stimulate the development of a state work-study program.

- ***Create a performance bonus as part of the TAG and/or EOF programs***. Rewarding success and encouraging persistence in college, particularly among low-income students for whom persistence presents greater difficulty, is in the best interest of the state. Adding a performance bonus to the TAG and/or EOF programs would accomplish this goal, encouraging achievement and college completion among New Jersey's neediest students.

- ***Develop policies to maximize the benefits of federal tax credits for New Jersey families.*** Rather than expand its current tax benefits for education as other states are considering, New Jersey should respond to the federal tax credits with policies that encourage full utilization of the federal tax credits for all eligible families. These policies could include launching a public information campaign to increase awareness of federal tax credits, and providing short-term loans to bridge the gap between when tax credits are "earned" and when they are received to make it easier for families to take advantage of them.

The demographic forecast for New Jersey indicates that the potential demand for postsecondary education, particularly among those populations demonstrating the greatest financial and educational needs, jeopardizes the viability of the state's current aid programs, placing it at an important juncture. New Jersey has a history of prioritizing need-based financial aid and educational support as vehicles for maintaining opportunity for all people. The state must now reevaluate the capacity of its higher education financing system, build on its strong history, and renew its investment in higher education. New Jersey's citizens are its most valuable resource; the future of the state will reflect the level of investment made in their future.

Introduction

As the nation begins the 21st century, the value of a college education, to both individuals and society, has never been greater. For example, from 1978 to 1998, inflation-adjusted annual earnings for persons with only a high school education actually declined by 4 percent, while earnings for those with a bachelor's degree increased by 15 percent (U.S. Bureau of the Census, 1999a). Furthermore, those with associate's and bachelor's degrees earn 29 percent and 73 percent more, respectively, than high school graduates over the course of their lifetimes. Increased educational attainment also offers substantial benefits to society in general, including increased tax revenues, greater consumption, and decreased reliance on government financial support (The Institute for Higher Education Policy, 1998). However, even as its benefits are celebrated, concerns about the rising costs of higher education are at an all-time high. In the last two decades of the 20th century, Academic Year (AY) 1977-78 to AY 1997-98, the national average tuition and fees at public institutions grew by 79 percent, from $1,323 to $2,365 (adjusted for inflation), while average tuition and fees at private institutions jumped nearly 100 percent from $6,778 to $13,013 (adjusted for inflation) (ED, 1998). Over time, these increases in tuition have required a greater portion of family income to meet the price of going to college, particularly for low- and middle-income families. In 1978, the average total price[1] at public institutions was 36 percent of the mean family income for the lowest quintile. By 1998, it had jumped to 54 percent. In contrast, for families in the middle quintile, 11 percent of mean family income was needed to cover the average total price at public institutions in 1978, growing to 15 percent in 1998. The portion of income required for families in the highest quintile did not change during this time, remaining at 5 percent (ED, 1998; U.S. Bureau of the Census, 1999b).[2]

Unfortunately, even as rising prices make it increasingly difficult for low-income families to afford higher education, trends in national financial aid policy have resulted in a shift of resources away from the most needy families to middle- and upper-income families. As shown in **Figure One**, need-based financial aid made up 62 percent of the total dollars awarded nationally in AY 1988-89. Just 10 years later, need-based aid accounted for only 38 percent of all aid dollars. Much of this shift is due to increases in federal student loans accompanied by relative stagnation of the federal grant programs. While overall participation in higher education has increased since the early 1980s, data suggest that federal student aid policy has done little to address the participation gap between low- and high-income students. From 1981 to 1996, the participation gap between these groups remained relatively unchanged, with the rate for low-income students rising from 34 percent to 49 percent, and the rate for high-income students increasing from 68 percent to 78 percent (The Institute for Higher Education Policy, 1999a).[3]

With its strong focus on need-based student aid, the State of New Jersey strives to reduce the impact of escalating tuitions and declining federal grant aid, as evidenced by its impressive record compared to other states. From AY 1992-93 through AY 1997-98, New Jersey ranked in the top five states for total need-based grant dollars awarded. In AY 1997-98, New Jersey also ranked high in several other national comparisons, demonstrating its commitment to helping students finance higher education:

- first in the percentage of full-time undergraduates receiving grant awards;
- second in grant dollars per full-time undergraduate enrollment;
- fifth in grant dollars per resident college-age population; and

[1] Total price includes tuition, all required fees, room, and board.

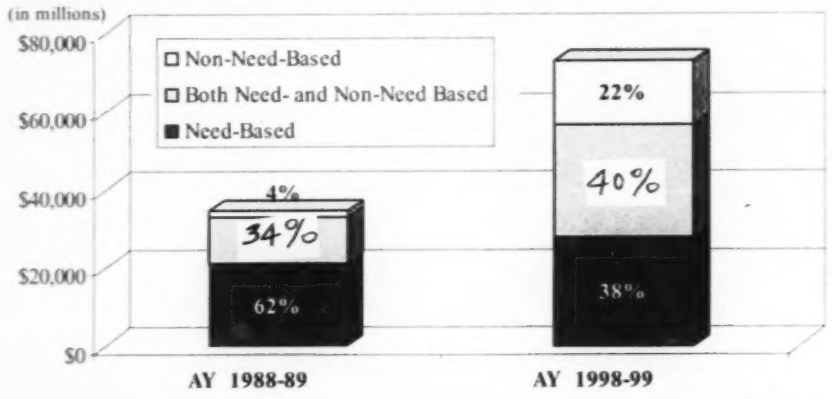
[2] Income is for calendar year; tuition and fees are for academic year ending.

[3] Low income is defined as the bottom 20 percent of all family incomes; high income, as the top 20 percent.

Figure One:

National Trends in Need-Based and Non-Need-Based Aid

(constant 1998 dollars)



Note: 1998-99 figures are preliminary. **Need-based programs** include Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, Income-Contingent Loans, and Subsidized Stafford Loans. **Non-need-based programs** include Unsubsidized Stafford Loans, Specially Directed Aid (Veteran and Military), Private Sector Loans, Leveraging Educational Assistance Program, Parent Loans for Undergraduate Students, and Supplemental Loans for Students. Other Specially Directed Aid, State Grants, State-Sponsored Loans, Institutional and Other Grants, and Federal Tax Credits are all classified as both **need-** and **non-need-based**.

Source: The College Board, 1999. The $9 billion estimate for tax credits in AY 1998-99 was taken from Conklin, 1998.

- sixth in grant dollars per resident population (NASSGAP, 1999).

Funding for state need-based financial aid clearly has been a priority for New Jersey in the past. However, the question that arises is whether that priority can be maintained over the long term. The state's changing and expanding population will place increasing pressures on its commitment to educational opportunity. This demographic challenge will be accompanied by an increasingly complex set of public demands on the higher education system. **Access**, defined as the ability to attend college (Cost Commission, 1998), will be paramount, but **affordability** (whether the amount that students and their parents actually have to pay to attend college is within their reach) (The Institute for Higher Education Policy and The Education Resources Institute, 1998) and **predictability** also will be of growing concern. (Predictability relates to parents' concerns about the rising price of a college education and how it will affect future affordability.)

This paper explores this changing context for New Jersey's higher education system and the implications for access and opportunity in the future. It also examines the state's existing major student aid programs, including how they are used currently and how they will be affected by future demand. Analyses are provided of contemporary approaches to addressing the issues of access, affordability, and predictability at the national and state level. These discussions and analyses serve as the basis for a set of policy recommendations to help New Jersey maintain its commitment to student access and affordability into the 21st century.

Context for Change

With the ninth largest population and the second highest median household income in the nation, New Jersey continues to be one of the most densely populated and economically vibrant states in the country (U.S. Bureau of the Census, 1999c; 1997, 1998, 1999).[4] The state's more than 8 million people are its most valuable resource; New Jersey's economic and social well-being depends on a continuing commitment to sustain and develop this resource as key aspects of the population change.

The people of New Jersey are diverse with respect to ethnicity, age, and educational background:

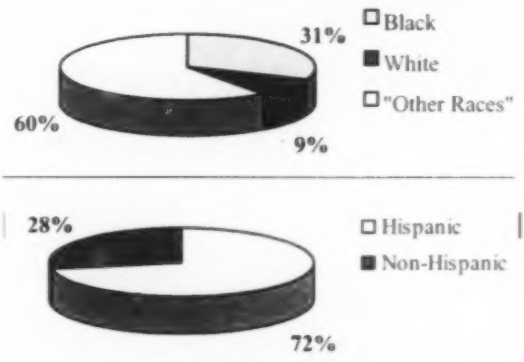
- According to the most recent Census data, 80 percent of New Jersey residents are white, 15 percent are black, 6 percent are Asian or Pacific Islander, and less than 1 percent are American Indian.[5] About 12 percent are Hispanic (U.S. Bureau of the Census, 1999d, 1999e, 1999f, 1999g, and 1999h).[6]
- Thirty-nine percent of New Jersey residents are between the ages of 18 and 44, with 8 percent between the ages of 18 and 24. Twenty-five percent are under 18, and 36 percent are age 44 and older (U.S. Bureau of the Census, 2000).[7]
- As of March 1998, 30 percent of New Jersey residents age 25 and older had received a bachelor's degree or higher, compared to 24 percent nationally (U.S. Bureau of the Census, 1998a and 1998b).

From 1980 to 1996, the total population of New Jersey grew by 8 percent, from approximately 7.4 million to 8 million, with many changes in the ethnic composition. During that time, the black population increased by 24 percent, the Hispanic population rose by 87 percent, and other non-white populations — what the Census Bureau refers to as the "other races" group of Asians, Pacific Islanders, American Indians, and Alaska Natives — grew by 252 percent. In contrast, the white population grew by only 2 percent over the same time period. The age distribution of the state's population also changed significantly during this time. The 18 to 24 year-old group decreased by 24 percent from 1980 to 1996, while the 25 to 39 year-old group increased 18 percent, and the over 40 population rose by 19 percent. The under 18 population increased by only 2 percent (New Jersey Department of Labor, 1998b).

By 2006, New Jersey's population is projected to reach approximately 8.4 million, undergoing further changes in composition (see **Figure Two**).

Figure Two:

Shares of Overall Population Growth in New Jersey by Race and Hispanic Origin, 1996 to 2006



Source: New Jersey Department of Labor, 1998b.

[4] Population estimate is as of July 1, 1999. Median household income is based on a three-year average from 1996 to 1998.

[5] Details do not add to 100 percent due to rounding.

[6] Population figures are for 1998. Hispanics may be of any race. Whenever data allow, Hispanic origin is considered independently of racial classifications, in which case totals will not add to 100 percent.

[7] Population figures are as of July 1, 1999.

The Hispanic population is anticipated to be the fastest growing group between 1996 and 2006, increasing an additional 35 percent and accounting for 72 percent of the state's total expected population growth. Growth in the black and "other races" populations is projected to account for 31 percent and 60 percent, respectively, of the overall increase. Whites will continue to be the slowest-growing group, contributing only 9 percent to the overall population growth. The total nonwhite population will increase from 20 percent of the state's residents in 1996 to 24 percent in 2006. In particular, Hispanics are projected to become the state's largest minority group by 2010 (New Jersey Department of Labor, 1998b).

New Jersey also will experience a significant change in the number of high school graduates in the first years of the 21st century. After a period of decline, New Jersey is now in the midst of significant growth in high school graduates. From AY 1995-96 to AY 2007-08, the number is projected to increase 30 percent from almost 79,000 to over 102,000 (WICHE, 1998).[8] This shift is due primarily to the overall growth in the 18 to 24 year-old population, which is projected to increase by 24 percent from 1996 to 2006, from approximately 672,000 to over 833,000. In 2006, this group will account for 10 percent of the overall population, a level that has not occurred since the early 1990s. From 1996 to 2006, the 25 to 39 year-old group will decrease by 22 percent, and the over 40 group will grow 17 percent, maintaining its place as the largest segment of the population at 47 percent. The under 18 age group will rise by only 7 percent (New Jersey Department of Labor, 1998b).

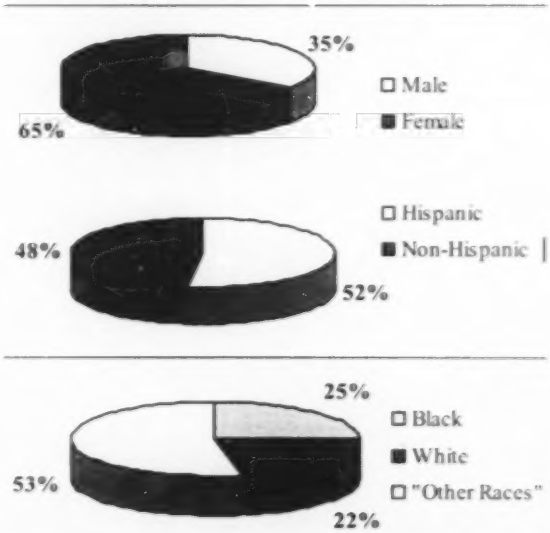
Economic Outlook

Projections for economic growth in New Jersey point to the growing importance of a college education for both the economic well-being of the state and the financial stability of its citizens. The number of jobs will grow by 11 percent from 1996 to 2006, and jobs that require some level of postsecondary education are among those projected to increase the fastest. Service-producing jobs, such as wholesale and retail trade and business and health services, will grow by 15 percent; by 2006, six out of every seven jobs will be in this industry. Professional and technical occupations will account for most of the growth in the service-producing industry, generating almost 40 percent of all new jobs. At the same time, goods-producing and manufacturing jobs — positions not requiring postsecondary education — will decline by 6 percent and 1 percent, respectively (New Jersey Department of Labor, 1998a).

The composition of New Jersey's labor force also will undergo significant change, increasing by 7 percent from 1996 to 2006. Females and minorities will account for the majority of that increase (see **Figure Three**). Women will comprise nearly 65 percent of the overall growth in the labor force, and nearly 80 percent of the increase will be among minority workers. Blacks will represent about 25 percent of the overall minority

Figure Three:

Shares of Overall Labor Force Growth in New Jersey by Sex, Race, and Hispanic Origin, 1996 to 2006



Note: Details may not add to total, due to rounding.
Source: New Jersey Department of Labor, 1998a.

[8] These numbers include both public and nonpublic high school graduates.

growth, and "other races" will represent over 50 percent. More than half of the labor force growth will be in the Hispanic population. In contrast, white males are projected to decline gradually as a percentage of the labor force (New Jersey Department of Labor, 1998a).

Enrollment in Higher Education

New Jersey's higher education system includes:

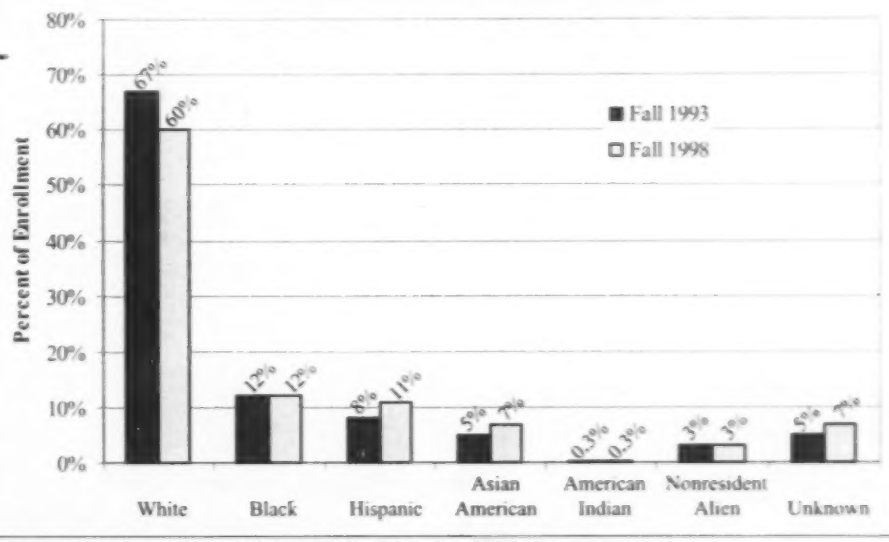
- three public research universities, including New Jersey Institute of Technology (NJIT), Rutgers, and the University of Medicine and Dentistry of New Jersey (UMDNJ);*
- nine state colleges and universities;
- 19 community colleges;
- 14 independent institutions; and
- 11 proprietary and theological institutions.

In Fall 1998, over 277,000 undergraduate students were enrolled in New Jersey institutions.[10] Fifteen percent were enrolled in public research universities, 24 percent in state colleges and universities, 44 percent in community colleges, 14 percent in the independent institutions, and 3 percent in proprietary or theological institutions. Combined, New Jersey institutions of higher education awarded a total of 51,465 degrees in AY 1997-98, including 25,258 bachelor's degrees (New Jersey Commission on Higher Education, 2000a).

The diversity of New Jersey's undergraduate student population mirrors that of the state (see **Figure Four**). In Fall 1998, 60 percent of undergraduates were white, 12 percent were black, 11 percent were Hispanic, 7 percent were Asian Americans, and less than 1 percent were American Indians. Three percent were nonresident aliens.[11] Since Fall 1993, white undergraduate enrollment has decreased by 15 percent, and enrollment of black students has grown by less than 1 percent.

Figure Four:

New Jersey Undergraduate Enrollment by Race, Fall 1993 and Fall 1998



Source: New Jersey Commission on Higher Education, 2000a.

* UMDNJ is not always represented in data presented for public research universities.

[10] This number refers to undergraduate headcount enrollment.

[11] For 7 percent of students, race was unknown.

In contrast, enrollment of Asian American and Hispanic students has increased by 30 percent and 28 percent, respectively. In terms of distribution by age, in AY 1994-95, 59 percent of undergraduates were under the age of 25, 21 percent were between 25 and 34 years old, and 18 percent were age 35 or older.

New Jersey's undergraduate students are somewhat representative of national trends in attendance status. The proportion of part-time students at the national level has remained relatively unchanged. In Fall 1992, 42 percent of undergraduate students attended part-time, compared to 41 percent in Fall 1996 (ED, 1998). Part-time students represented 46 percent of New Jersey's undergraduates in Fall 1993, and 40 percent in Fall 1998. Over this time period, part-time student enrollment decreased by 18 percent, while full-time enrollment increased by 6 percent.

New Jersey's Financial Aid System

In Fiscal Year (FY) 2000, the New Jersey legislature appropriated nearly $200 million for student financial aid (Higher Education Student Assistance Authority, 2000). Undergraduate students receive assistance in paying for college through a number of programs including: the Tuition Aid Grant (TAG); the Educational Opportunity Fund (EOF); a set of consolidated merit scholarships, including Bloustein Distinguished Scholars, Urban Scholars, and Garden State Scholars; Survivor Tuition Benefits (formerly known as Public Tuition Benefits); and the bond-financed New Jersey College Loans to Assist State Students (NJCLASS).[12] In 1997, New Jersey added the Outstanding Scholars Recruitment Program (OSRP) to its list of merit scholarships as a vehicle to encourage the most academically prepared students to attend a New Jersey institution. Graduate students are served by EOF, NJCLASS, and two merit scholarship programs -- the King Physician/Dentist Scholarship and the Ferguson Law Scholarship. In addition, the New Jersey Better Educational Savings Trust (NJBEST) allows parents and grandparents to save for their children's education.[13]

With the exception of NJCLASS, all programs stipulate that recipients be state residents. Both TAG and EOF also require the demonstration of financial need, and in the case of EOF, recipients must come from an economically and/or educationally disadvantaged background. All four undergraduate merit scholarships are awarded on the basis of academic achievement in high school. The Survivor Tuition Benefits program awards a small number of grants each year to spouses and children of emergency and law enforcement personnel killed in the line of duty. NJCLASS provides unsubsidized loans in amounts up to the cost of attendance for students attending a New Jersey institution and their parents or spouses. The King and Ferguson programs award scholarships to disadvantaged and minority graduate students pursuing medical and legal careers.

Part-time students are ineligible for almost all New Jersey need-based financial aid programs and merit scholarships. Each year, a small number of EOF students who are counseled to drop to part-time status receive TAG awards. In AY 1998-99, a total of $427,000 was awarded to 525 part-time students under this program. The Survivor Tuition Benefits program also awards grants to part-time students (The Institute for Higher Education Policy, 1999b).[14]

To receive any need-based aid in New Jersey, applicants must complete the Free Application for Federal Student Aid (FAFSA). The Higher Education Student Assistance Authority (HESAA) uses information from the FAFSA to determine eligibility for both TAG and EOF grant awards. Eligibility for the merit-based scholarship

[12] NJCLASS is not included in the appropriations number; it is a self-sufficient bond-financed program.

[13] Funding for NJBEST is not included in the appropriations number.

[14] In AY 1998-99, 15 students, two of whom were part-time, received tuition grants under this program.

Table One:
New Jersey State Appropriations for Student Aid Programs*
(in thousands)

	FY 1990	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Tuition Aid Grants (TAG)	$61,305	$121,280	$122,730	$114,560	$137,661	$137,661	$141,661	$149,456
TAG Grants for Part-Time EOF Students	$500	$400	$400	$400	$400	$400	$620	$620
EOF								
Program Grants	$14,871	$18,110	$18,110	$19,410	$20,410	$20,410	$20,410	$20,410
Supplementary Grants	$8,819	$10,500	$10,500	$11,000	$11,000	$11,000	$11,385	$11,385
MLK Scholarships	$375	$602	$602	$602	$602	$602	$602	$602
Ferguson Scholarships	$100	$200	$200	$200	$200	$200	$200	$200
Garden State Scholarships	$3,450	$3,062	$3,062	$2,662	$2,662	$2,662	***	***
Bloustein Distinguished Scholarships	$3,500	$4,000	$4,000	$3,600	$3,600	$3,600	***	***
Urban Scholarships	$900	$1,300	$1,300	$1,300	$1,300	$1,300	***	***
Total-Coordinated Scholarships	$7,850	$8,362	$8,362	$7,562	$7,562	$7,562	$7,562	$.7562
Outstanding Scholars Recruitment Program (OSRP)					$1,800	$1,800	$6,000	$9,200
Survivor Tuition Benefits		$65	$65	$65	$65	$65	$65	$65
**TOTAL ** **	**$93,820**	**$159,519**	**$160,969**	**$153,799**	**$179,700**	**$179,700**	**$188,505**	**$199,500**

* Appropriations have not been adjusted to reflect funds carried forward into the next fiscal year.
** TOTAL includes only those student aid programs listed on this table, the main State aid programs.
*** Beginning in FY 1999, the Garden State, Bloustein Distinguished, and Urban Scholarships were combined into a coordinated merit scholarship fund.

Source: Figures derived from the governor's Budget Books for FY 1990 through FY 1996. Figures for FY 1997 through FY 2000 are provided by the Higher Education Student Assistance Authority, 2000.

Table Two:
Number and Dollar Amounts of TAG Awards by Sector*

	AY 1990-91	AY 1993-94	AY 1994-95	AY 1997-98	AY 1998-99
Number of TAG Awards					
Community Colleges	9,757	14,544	15,372	18,712	17,546
State Colleges	11,215	13,069	13,190	14,871	14,925
Independent Institutions	8,520	10,042	10,193	10,218	12,544
Rutgers/NJIT/UMDNJ **	10,001	10,992	11,103	12,765	12,389
TOTAL	**39,523**	**48,647**	**49,858**	**56,476**	**57,404**
Dollar Amount of TAG Awards *(in thousands)*					
Community Colleges	$9,898	$17,122	$19,377	$21,692	$21,076
State Colleges	$16,845	$22,979	$24,974	$27,086	$28,634
Independent Institutions	$26,052	$38,300	$41,618	$41,998	$53,043
Rutgers/NJIT/UMDNJ **	$22,249	$30,564	$32,658	$37,319	$38,196
TOTAL	**$75,044**	**$108,955**	**$118,627**	**$128,096**	**$140,949**

* The number of awards corresponds to the annualized award count, which includes the number of full-time, full-year grant equivalents in one year, not the actual number of grants awarded. Some students might receive grants for only part of the year.

** UMDNJ not included in AY 1990-91 through AY 1994-95.

Source: New Jersey Commission on Higher Education, 2000a.

programs is based on preset SAT and class rank criteria. There is no application process; rather, all eligible students are nominated by their high schools, and recipients are chosen by a committee.

In the past decade, funding for student aid programs has continued to rise. From FY 1990 to FY 1995, state appropriations for financial aid programs rose from approximately $94 million to almost $161 million, an increase of 72 percent, 46 percent in inflation-adjusted dollars (see **Table One**).[15] From FY 1995 to FY 1998, appropriations for student aid programs grew to nearly $180 million, an increase of 12 percent, 4 percent after adjusting for inflation. The somewhat slower rate of growth in recent years reflects a moderation in growth of tuition rates (Higher Education Student Assistance Authority, 2000).

Tuition Aid Grant (TAG) Program

The Tuition Aid Grant (TAG) program is the largest of New Jersey's financial aid programs. In FY 1999, New Jersey awarded over $140 million in grants to a total of over 57,000 recipients. As shown in **Table Two**, the awards were distributed fairly evenly across sectors. Thirty-one percent of awards went to students at community colleges, 26 percent to students attending the state colleges and universities, 22 percent to students enrolled at independent institutions, and 22 percent to students at public research universities. The average grant across sectors was $2,455 (New Jersey Commission on Higher Education, 2000a). In Fall 1999, 41 percent of the TAG awards were given to white students, 24 percent to black students, 23 percent to Hispanic students, 11 percent to Asian students, and less than 1 percent to American Indian students.[16] Of those Fall 1999 recipients who supplied information about their parents' educational attainment, 65 percent reported that their fathers had a high school education or less, and 67 percent reported that their mothers had a high school education or less. In Fall 1999, 74 percent of TAG grants were awarded to dependent students, and 26 percent went to independent students (New Jersey Commission on Higher Education, 2000c).[17]

[15] Figures do not include NJCLASS and NJBEST.

[16] Percentages calculated using only students who reported race; for 5 percent of overall total, race was unknown.

[17] Percentages calculated using all TAG awards, including those awarded to EOF students, with the exception of percentages regarding parents' educational attainment.

Table Three:
TAG Award Table for 1999-2000*

New Jersey Eligibility Index (NJEI)	Average Awards: Community Colleges**	State Colleges**	Independent Institutions	Rutgers & UMDNJ	NJIT
Under 1,500	$1,786	$3,296	$6,674	$4,562	$5,250
1,500 to 2,499	$1,682	$3,108	$6,276	$4,322	$4,918
2,500 to 3,499	$1,454	$2,628	$5,522	$3,838	$4,394
3,500 to 4,499	$1,130	$2,166	$4,946	$3,330	$3,766
4,500 to 5,499	$844	$1,822	$4,370	$2,918	$3,268
5,500 to 6,499	$0	$1,414	$3,798	$2,506	$2,774
6,500 to 7,499		$1,026	$3,222	$2,106	$2,322
7,500 to 8,499		$0	$2,646	$1,704	$1,804
8,500 to 9,499			$2,094	$1,208	$1,208
9,500 to 10,499			$1,194	$0	$0
Over 10,499			$0		

* In accordance with State guidelines, the value of a student's grant may decrease depending on appropriated funds, actual tuition charges, cost of attendance, estimated family contribution, and other available resources.

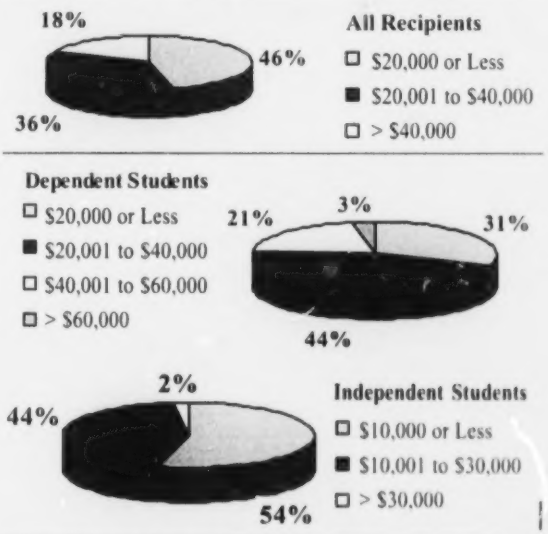
** For the community and state college sectors, this table displays the projected average award values across the respective institutions in the sector. The award values at a given institution may be higher or lower, depending on the level of tuition.

Source: Higher Education Student Assistance Authority, 2000.

The Higher Education Student Assistance Authority reviews information from the FAFSA to determine eligibility for TAG awards. HESAA performs its own need analysis resulting in the New Jersey Eligibility Index (NJEI), taking into account several factors, such as income, dependency status, family size, number of family members attending college, and the cost of attendance. HESAA then constructs a TAG table that includes projected awards across sectors for a given NJEI level. Maximum TAG awards are set, according to the previous year's tuition rates, to be 100 percent of average tuition for public institutions and 50 percent of average tuition at independent institutions. This system ensures that TAG awards will keep pace with tuition increases. As shown in **Table Three**, the award value for each sector decreases as the NJEI value increases.

As shown in **Figure Five**, the vast majority of TAG awards were given to low- and middle-income students. Overall, 46 percent of grants

Figure Five:
Distribution of TAG Awards by Income, Fall 1999



Source: New Jersey Commission on Higher Education, 2000c.

Table Four:
Comparison of Maximum and Average TAG Awards and Average Tuition*

	Average Tuition	Maximum TAG Award**	% of Tuition	Average TAG Award	% of Tuition
		AY 1994-95			
Community Colleges	$1,485	$1,370	92%	$974	66%
State Colleges	$2,379	$2,280	96%	$1,681	71%
Independent Institutions	$10,946	$5,210	48%	$3,619	33%
Rutgers	$3,693	$3,552	96%	$2,680	73%
NJIT	$4,188	$4,138	99%	$2,680	64%
		AY 1998-99			
Community Colleges	$1,787	$1,728	97%	$1,539	86%
State Colleges	$3,303	$2,640	80%	$2,140	65%
Independent Institutions	$13,440	$6,052	45%	$4,799	36%
Rutgers/UMDNJ ***	$4,562	$4,092	90%	$3,380	74%
NJIT	$5,250	$4,708	90%	$3,380	64%

* Values for maximum TAG awards were derived from the TAG Tables for AY 1994-95 and AY 1998-99. Average TAG award values were derived from a profile of TAG recipients. Average tuition rates refer to the average annual full-time tuition, weighted by institution within each sector.

** For the community and state college sectors, the "maximum" award value refers to average maximum award values across the institutions in these sectors. Award values at a given institution might be higher or lower, depending on the level of tuition.

*** UMDNJ was not included in data provided for AY 1994-95.

Source: Higher Education Student Assistance Authority, 2000.

awarded in Fall 1999 went to students with family incomes of $20,000 or below. Among dependent students, the majority of awards went to students with family incomes between $20,001 and $40,000. Among independent students, only 2 percent of TAG grants were given to those with incomes greater than $30,000 (New Jersey Commission on Higher Education, 2000c).[18]

The range of estimated award levels in the TAG table varies each year, depending on tuition levels and appropriations for the program. By law, TAG awards at public institutions cannot exceed tuition levels, and cannot be more than 50 percent of average tuition at private institutions. In AY 1998-99, the *maximum* TAG award covered 97 percent of tuition at community colleges, 80 percent at state colleges and universities, 45 percent at independent institutions, and 90 percent at public research universities.[19] In AY 1999-2000, the *maximum* TAG award covered 98 percent of average tuition at the community colleges, 94 percent at state colleges and universities, 96 percent at the public research universities, and 48 percent at independent institutions. The *average* TAG award in AY 1998-99 covered 86 percent of tuition at community colleges, 65 percent at state colleges and universities, 36 percent at independent institutions, and between 64 percent and 74 percent at public research universities (see **Table Four**) (Higher Education Student Assistance Authority, 2000).[20]

[18] Percentages calculated using all TAG awards, including those awarded to EOF students.

[19] Because maximum TAG awards are set by the previous year's tuitions, discrepancies between maximum awards and average tuition in a given year represent, to a great extent, yearly fluctuations in tuition rates.

[20] Average TAG awards were not yet available for AY 1999-2000.

Funding for grant aid in New Jersey continues to exceed the growth of federal grant aid. Funding for the TAG program grew by nearly 100 percent between FY 1990 and FY 1995 (69 percent after adjusting for inflation), and another 12 percent between FY 1995 and FY 1998 (5 percent in inflation-adjusted dollars).[21] From FY 1990 to FY 1998, funding for TAG increased by 123 percent — from nearly $62 million to a little more than $138 million, a 77 percent increase after adjusting for inflation (Higher Education Student Assistance Authority, 2000). In comparison, federal funding for grant programs (Pell Grants, Supplemental Educational Opportunity Grants, and State Student Incentive Grants) rose by only 32 percent from $5.3 billion to $7 billion over the same eight-year period. After adjusting for inflation, this increase is only 4 percent (College Board, 1999).

Educational Opportunity Fund (EOF)

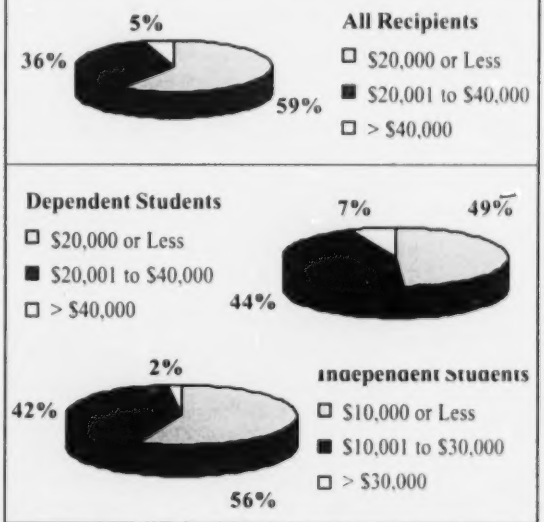
The Educational Opportunity Fund (EOF) is New Jersey's second largest financial aid program. EOF provides grants to students from economically and/or educationally disadvantaged backgrounds who demonstrate exceptional financial need. There are 58 EOF programs at 28 public and 13 independent institutions in the state.[22] Each campus is responsible for recruitment, selection, and program services for its individual program(s) (New Jersey Commission on Higher Education, 2000b).

In addition to receiving financial assistance, recipients of EOF grants participate in summer sessions, on-campus tutoring and counseling, and developmental courses. EOF recipients also receive TAG awards; EOF grants can be used to meet college costs not covered by TAG, including books, fees, and room and board. In FY 1999, over 13,000 grants were awarded to undergraduates, with an average award of $966 (New Jersey Commission on Higher Education, 2000a). In Fall 1999, 17 percent of EOF grants were awarded to white students, 40 percent to black students, 32 percent to Hispanic students, 9 percent to Asian students, and less than 1 percent to American Indian students.[23] Of those recipients who provided information about their parents' educational attainment, 78 percent reported that their fathers had a high school education or less, and 77 percent reported that their mothers had a high school education or less (New Jersey Commission on Higher Education, 2000c).

Unlike the TAG program in which several factors are considered in determining need, eligibility for EOF is based on specific income cutoffs depending on household size. Overall, 59 percent of EOF grants were awarded to students with family incomes of $20,000 or below, 36 percent were given to students with family incomes between $20,001 and $40,000, and only 5 percent were awarded to students with family incomes greater than $40,000 (see **Figure Six**).

Figure Six:

Distribution of EOF Awards by Income, Fall 1999



Source: New Jersey Commission on Higher Education, 2000c.

[21] Includes funding for part-time TAG grants.

[22] Institutions can have more than one EOF program.

[23] Percentages calculated using only students who reported race; for 1 percent of overall total, race was unknown.

Among dependent students, only 7 percent were given to students with incomes of more than $40,000. Twenty-six percent of EOF awards were awarded to independent students, nearly all of whom had incomes of less than $30,000 (New Jersey Commission on Higher Education, 2000c).

Student Aid System Capacity

Analysis of New Jersey's student financial aid system indicates that the state continues to demonstrate a strong commitment to helping students pay for college. That commitment is evidenced, in large part, by a continued focus on grant aid. New Jersey's grant aid has reduced both the cost of attendance and the amount of borrowing by students. However, the system is beginning to show signs of strain. As the number of students seeking to attend college grows, particularly among those populations with the greatest financial and educational needs, the capacity and scope of the current system will be jeopardized.

Data from the 1996 National Postsecondary Student Aid Study (NPSAS:96) indicate that, of those students who apply for federal aid, greater proportions of non-white students are determined to have an expected family contribution (EFC) of zero as determined in the federal need analysis process. Thirty-five percent of black students, 32 percent of Hispanic students, 32 percent of American Indian/Alaskan Native students, and 21 percent of Asian/Pacific Islander students had an EFC of zero, compared to only 13 percent of white students. Twenty-six percent who identify their race as "other" have an EFC of zero (NCES, 1996). Given that New Jersey uses similar need analysis criteria to create NJEI, the number of students who are eligible for state financial aid is likely to increase as the state's non-white population grows.

Analyzing New Jersey's Current Financing Trends

Focusing on means of introducing stability into the system and appropriately balancing the issues of access and affordability will be critical. The following findings resulted from analysis of trend data specific to New Jersey's overall higher education financing system and information pertaining to national trends.

New Jersey continues to concentrate most of its funding for student financial aid in need-based grants.

Of the nearly $200 million appropriated for student financial assistance in FY 2000, over 90 percent went to grant programs, of which 75 percent was awarded as TAG grants (Higher Education Student Assistance Authority, 2000). Although borrowing has increased in recent years in both the federal and New Jersey loan programs, grant aid continues to be the focus of state-funded student aid in New Jersey. This focus on grant aid not only provides access to low-income students, but also helps ensure that they will persist. Research shows that grant aid tends to have the greatest positive effect on persistence. A 1998 study found that for students in the lowest income quartile, 55 percent of those with a Pell Grant either graduated or were still enrolled after five years, compared to 41 percent of those without a Pell Grant (Lee, 1998). In addition, a 1994 study by the U.S. General Accounting Office (GAO) estimated that African-American and Hispanic students receiving $1,000 in grant aid over the average grant level have a 7 percent and 8 percent, respectively, lower probability of dropping out compared to those who do not receive this additional amount, controlling for such factors as student ability and family background (GAO, 1994).

Growth in tuition rates have declined somewhat in recent years but continue to exceed inflation.

From AY 1989-90 to AY 1994-95, increases in average tuition at New Jersey institutions ranged from 38 percent to 55 percent, depending on the

Table Five:
Increases in Borrowing by State, FY 1990 to FY 1997*
(Stafford Loans, Parent Loans for Undergraduate Students, and Supplemental Loans for Students)

	FY 1990	FY 1994**	% Change 1990-94	FY 1997	% Change 1990-97
California	$1,088,348,022	$1,912,805,714	76%	$2,603,073,355	139%
Colorado	$235,619,485	$323,424,496	37%	$542,388,777	130%
Florida	$175,183,103	$521,648,244	198%	$858,325,142	390%
Georgia	$108,315,674	$322,103,614	197%	$685,522,771	523%
Illinois	$424,684,454	$709,642,725	67%	$1,116,865,217	163%
Iowa	$178,566,502	$335,908,159	88%	$529,256,669	196%
Michigan	$244,739,310	$550,402,325	125%	$985,650,235	303%
Nebraska	$172,601,644	$378,433,971	119%	$455,040,596	164%
NEW JERSEY	**$202,186,874**	**$345,722,890**	**71%**	**$579,560,026**	**187%**
New York	$929,086,971	$1,667,124,351	79%	$2,433,688,182	162%
Texas	$703,462,126	$1,067,232,396	52%	$1,542,593,313	119%
U.S. Total	$12,290,646,911	$23,101,135,064	88%	$32,393,861,080	164%

* For simplicity, this table features borrowing data from a sample of states, including New Jersey, that guarantee loans primarily within their individual states.

** FY 1994 does not include direct loan dollars, as they were not available by state. Direct loan dollars totaled $916,191,415 nationally.

Source: U.S. Department of Education, Office of Postsecondary Education, 2000.

sector, exceeding the state's 21 percent inflation rate during the same time period. However, the 37 percent growth in the average TAG award helped lessen the impact of tuition growth. From AY 1994-95 to AY 1998-99, growth in tuition levels ranged from 20 percent to 39 percent depending on the sector, continuing to surpass the state's inflation rate of 9 percent during that time period. (New Jersey Council of Economic Advisors, 1999).[24] The 16 percent increase in the average TAG award from AY 1994-95 to AY 1997-98 indicates New Jersey's continued commitment to maintain access to college. However, these figures suggest that there are limits to the system's capacity to continue meeting ever-increasing demands for assistance and rising tuition.

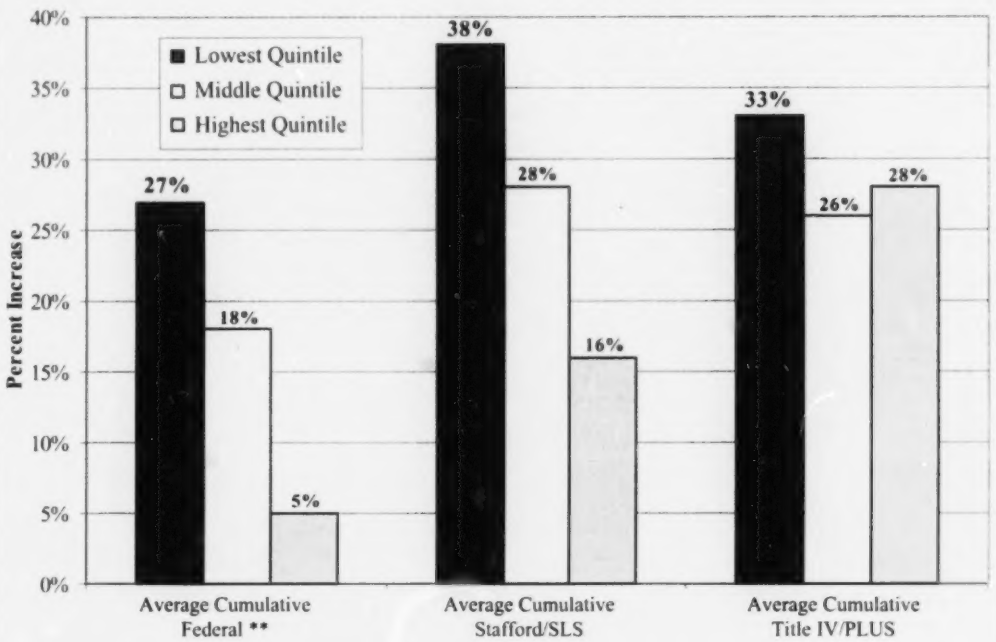
The rate of growth in borrowing among students attending New Jersey institutions and their families now exceeds the national average.

Over the last decade, the rate of borrowing among college students and families skyrocketed, nationally. For students attending New Jersey institutions, borrowing also increased dramatically, and in the second half of the 1990s, it exceeded the national average (see **Table Five**). From FY 1990 to FY 1994, federal loan volume in New Jersey grew from approximately $202 million to almost $346 million, a 71 percent increase (49 percent in inflation-adjusted dollars). In only three additional years, FY 1997, borrowing increased by another 68 percent (55 percent after inflation adjustment) to nearly $580 million. The combined seven-year rate of growth of 187 percent (131 after adjusting for

[24] CPI was only available by calendar year; calendar year was used for academic year ending.

Figure Seven:

National Increases in Average Cumulative Borrowing by Income, 1993 to 1996*



* Income = Adjusted Gross Income, 1991 and 1994, respectively.

** Cumulative Federal borrowing excludes Parent Loans for Undergraduate Students (PLUS).

Source: NCES, 1996.

inflation) was higher than the national total of 164 percent (112 percent in inflation-adjusted dollars) (OPE, 2000).[25] As shown in **Figure Seven**, national data indicate that recent increases in borrowing have occurred across income levels, with the highest increases occurring among those with incomes in the lowest quintile. From AY 1992-93 to AY 1995-96, increases in cumulative amounts borrowed (in inflation-adjusted dollars) ranged from 27 percent to 38 percent for families and students in the lowest quintile (depending on which type of loan is considered), compared to increases ranging from 5 percent to 28 percent for those in the highest quintile.

Borrowing through the NJCLASS program also has rebounded in recent years. In AY 1991-92, the first year of the program, 4,250 loans were taken out for a total of $17.6 million. In AY 1994-95, the number of loans dropped to 1,875, totaling $10.9 million. After a campaign to raise awareness of the NJCLASS program, the volume rose to 3,001 loans in FY 1998, totaling approximately $21 million (NJOSA, 1998).[26]

[25] In the 1992 Reauthorization of the Higher Education Act, the Unsubsidized Stafford Loan Program was created and loan limits were raised, leading to a significant increase in borrowing.

[26] Because the recent increase in borrowing through the NJCLASS program followed a targeted awareness campaign, it is unclear whether the increase in borrowing through this program represents real growth in borrowing or a shift to NJCLASS among those who may have borrowed from another source.

Table Six:
Shifting the Cost Burden from the State to Students
New Jersey State College/University Sector
Sources of Unrestricted Revenue*

	FY 1989	FY 1994	FY 1997	FY 1999
State Government Appropriations	72%	64%	59%	55%
Tuition and Fees	25%	34%	37%	41%
State Government Grants/Contracts	1%	0%	0%	0%
Private Gifts, Grants/Contracts	0%	0%	1%	1%
Endowment Income	0%	0%	0%	0%
Other Sources	3%	2%	3%	3%
TOTAL **	**100%**	**100%**	**100%**	**100%**

* Includes data from eight state colleges.
** Excludes sales and services of educational activities, auxiliary enterprises, hospitals, and independent operations.

Source: New Jersey Commission on Higher Education, 2000c.

Similar to national trends, the proportion of educational and general costs borne by the state has declined and been replaced by tuition and fees.

Nationally, the percentage of revenues public institutions received from state government funds declined from 46 percent in AY 1980-81 to 40 percent in AY 1990-91. During the same time, the percentage of revenues from student tuition and fees increased from 13 percent to 16 percent. This decline in state investment in higher education has continued in recent years. By AY 1995-96, the proportion of public institutions' revenues made up of state funds had dropped to 36 percent, while the proportion covered by tuition and fees rose to 19 percent (ED, 1998). As evidenced by trends in revenue sources for eight state colleges, New Jersey has experienced the same decline in state investment. As shown in **Table Six**, the proportion of revenues made up of state government funds steadily decreased from FY 1989 to FY 1997. Over this eight-year period, the proportion of revenues covered by state government appropriations dropped 13 percent; during the same period, student tuition and fees as a proportion of institutional revenues increased by 12 percent. By FY 1999, the proportion of state college revenue covered by state government appropriations had fallen to 55 percent, while tuition rose to 41 percent of revenue (New Jersey Commission on Higher Education, 2000c).

Lessons from Other States

States and higher education institutions use a variety of programs to enhance access, affordability, and predictability for their constituents. The following analysis reviews some of the contemporary means — as well as the more traditional — through which these issues have been addressed. The analysis focuses particularly on how these programs affect access and affordability.

Large-Scale Merit Scholarships

Georgia's Helping Outstanding Pupils Educationally (HOPE) scholarship, which began awarding tuition scholarships to undergraduate students in Fall 1993, is one example of the shift from need-based to non-need-based aid. HOPE scholarships are awarded on the basis of academic merit; students must achieve a B-average high

school GPA to receive the award and maintain that GPA in college in order to keep their scholarships. Georgia's program currently provides eligible residents in-state tuition, mandatory fees, and a book allowance at any of its public institutions and $3,000 annually for attendance at a private college or university in the state. Since September 1993, over 400,000 students have received scholarships for a total of over $900 million (Bugler et al., 1999). Encouraged by the popularity of Georgia's program, several other states, including Florida, Louisiana, Kentucky, and Maryland, have adopted merit scholarship programs of their own.[27] While the programs differ in some of their administrative features and in the exact criteria used to determine eligibility, certain basic characteristics are universal to these programs. They all provide incentives for academic achievement among high school and college students, and have as a primary goal keeping the "best and brightest" students in their home state. On the surface, these seem like appropriate and even commendable objectives. But many analyses and critiques of the programs indicate that they are resulting in unintended negative consequences for students and institutions.

Although the Georgia HOPE scholarship program was designed, in part, to reward academic achievement, critics fear that it may be leading to an overemphasis on grades on the part of both students and professors. For example, some professors at the University of Georgia feel that the B-average requirement to maintain the HOPE scholarship has pressured them to inflate grades. Even more troubling, students admit to consciously balancing the difficulty of their course work in order to ensure their B average. While the mean high school GPA for entering freshman increased from 3.33 in 1993 to 3.52 in 1997, the proportion of students withdrawing from a course in the fall semester has risen slightly from 6 percent in 1992, before the HOPE scholarship program began, to 7 percent in 1996, three years after its implementation (Healy, 1997). Without further study, it remains unclear whether this program will in fact increase the academic competence of students in general, particularly if they feel pressured to take less difficult classes.

Furthermore, it is unknown what the long-term financial and educational consequences are for students who lose their HOPE scholarship in the midst of their college career. Half of the students who finance their freshman year of college with HOPE scholarships lose them after that first year, a problem that disproportionately affects black students. Only 26 percent of black students who received HOPE scholarships in Fall 1995 carried them forward to their sophomore year, compared to 57 percent of white students (Healy, 1997). Over four years of study, 75 percent of all HOPE recipients lost their scholarship, and 40 percent of those students left college. From 1993 to 1996, the percentage of students who lost their scholarships after two years declined from 52 percent to 43 percent, but the proportion of those students leaving college after losing the scholarship rose from 33 percent to 43 percent (Bugler et al., 1999).

Another criticism of merit-based scholarships is that they do not address issues of access for students who traditionally have been underrepresented in colleges and universities. The likelihood of obtaining the high school GPA required for the HOPE scholarship is higher for white students than black students, for students from two-parent families than for those from single-parent families, and for students from

[27] If New Jersey were to create its own program similar to Georgia's HOPE, the cost would be significant. In the *first year* alone, it would cost the State an estimated $31.5 million (using 1998 data) to provide similar scholarships to first-time, full-time, in-state students attending state, community, and public colleges and independent institutions. The percent of eligible incoming students was based on the percent eligible in Georgia in the first year of the program. In New Jersey, the percent of students that attend college in state, attend full-time, and average tuition by sector were factored into the estimate. However, it is important to note that the cost estimation would rise with the inclusion of part-time students and students attending proprietary institutions, both of whom receive funding in the Georgia program. Revenue for Georgia's program comes from a lottery created specifically to fund education.

higher-income families than for those from lower-income families. Those families who can already afford to finance a college education for their children benefit from the HOPE scholarship to a greater extent than those groups for whom access is a real concern. Yet, the income cap for recipients of HOPE scholarships was moved from $60,000 to $100,000, before being eliminated completely in the third year of the program. Evidence from Georgia also highlights the danger that large-scale merit programs pose for need-based grant programs. In just three short years, 1994 to 1997, funding for need-based grant programs in Georgia dropped from $5.3 million to $2.2 million (Mortenson, 1999).

Prepaid Tuition Plans

In 1988, Michigan began operating the first prepaid college tuition plan; between 1988 and 1997, 18 other states launched their own programs. The public appeal of prepaid tuition plans arises mainly from the "peace of mind" that they provide to parents concerned with the rising price of a college education. Prepaid tuition plans allow parents to lock in today's tuition prices, thereby assuring that their sons or daughters will be able to attend a participating institution in the future, regardless of tuition inflation. In general, participants in the plans purchase a certain "amount" of higher education services, and state fund managers pool the money and make investments designed to keep pace with inflationary increases in tuition and other college expenses (College Savings Plans Network, 1998). Prepaid tuition plans do not, however, eliminate the uncertainty associated with rising prices; rather, they transfer the risk from parents to the state. Many states' prepaid tuition plans offer the full faith and credit of the state or a moral obligation to participants to keep up with tuition inflation. Making accurate long-term projections about tuition increases and rates of return on investment options is difficult at best. Even those who believe that well-run programs can predict tuition prices and get adequate returns find other problems with the programs. For example, original start-up costs and any bailout of a troubled plan come from a state's general revenues, meaning that to a great extent *all* taxpayers subsidize a program that benefits primarily middle- and upper-income families (Olivas, 1996).

Data from states that track the income of participants in prepaid tuition plans show that lower-income families are underrepresented. In Florida, Alabama, and Ohio, most families with children under 18 had annual incomes under $30,000 in 1992, but most plan participants reported incomes of $50,000 or more. In Florida, only 5 percent of purchasers had incomes less than $20,000 compared to 36 percent overall in the state. In Alabama, only 2 percent of those participating had incomes less than $20,000 compared to 35 percent in the state. Low-income participants also are less likely to be able to meet the long-term financial requirements of participation in the plans. Of those who purchased prepaid tuition plans in Florida during the first five enrollment periods (through January 1993), 28 percent of those with incomes less than $20,000 cancelled by September 1993, compared to only 10 percent of those with incomes over $50,000 (GAO, 1995). Rather than serving as a means of access, prepaid tuition plans have proven to be a method that is focused on affordability for middle- and upper-income families.

The argument that participation in these plans by the middle-income population frees up money for lower-income students has not been borne out, since the majority of beneficiaries of prepaid tuition plans would not qualify for financial aid. For example, of the 925 prepaid students enrolled at Michigan State University during AY 1993-94, 78 percent did not apply for aid. Of those who did apply, 60 percent were ineligible either because their parents had enough money, even excluding the value of their prepaid plan, or because combined family resources and merit aid exceeded prices (GAO, 1995). Encouraging people to invest in a college education for their children is a laudable goal. However, the money earned in these plans does not, in general, lessen the amount of

funding needed to continue to provide access for those who would otherwise remain outside the system, primarily because low-income families are unable to benefit from these plans.

Savings Plans

Savings plan trusts provide special benefits to participants who wish to save for college in state-run savings accounts. Similar to prepaid tuition plans, states invest participants' contributions to help offset the costs of college; however, they do not guarantee to keep pace with tuition increases. Consequently, the state takes on less risk and can offer more flexible requirements for interested parents. Contributors can invest various amounts depending on their financial resources and savings goals. They generally can be used at any qualified higher education institution in the United States, and in many cases accounts can be transferred to alternate beneficiaries. The plans also provide some state tax exemptions and deferment at the federal level. In recent years, about 40 states have started savings plans to help people meet the price of higher education (Heyboer, 1999).

New Jersey began the New Jersey Better Educational Savings Trust (NJBEST) in 1998 with the hopes that it would help ease the burden of the rising price of college and allow more people to participate in higher education. However, only 16 months into the program, critics began to question its effectiveness. A little over a year after the program's implementation in New Jersey, only 1,734 accounts had been opened, compared to 10,600 in Iowa, 31,000 in New Hampshire, and 68,459 in New York — three states that began programs within one month of New Jersey. This difference is due in part to New Jersey's requirement that participants be state residents.

Critics fear, however, this is only one of several reasons that participation rates are low for New Jersey's plan (Heyboer, 1999). They maintain that despite numerous incentives — such as low minimum payments, no application fee, state tax exemption on earnings used for tuition and other college expenses, a $25,000 savings exemption in state need-based aid analysis, and a $500 scholarship for beneficiaries who attend college in the state of New Jersey — participation remains low because NJBEST has higher maintenance fees and lower rates of return than other programs. New Jersey's reported 5 percent rate of return is among the nation's lowest (Heyboer, 1999); however, program officials report a much higher rate of more than 12 percent for 1999. Unlike New York's and New Hampshire's programs, which base investment types on the age of the beneficiary, New Jersey uses the same conservative investment profile for all beneficiaries. Its yearly maintenance fee — $15 plus 1 percent of earnings — is high compared to other programs (Heyboer, 1999). Changes recently announced in the governor's FY 2001 budget proposal include cutting the maintenance fees, adopting an age-based investment approach, and increasing the scholarship bonus amount.

These changes have the potential of encouraging more investors to use NJBEST rather than looking to other states; it is less likely, however, that they will affect the participation of low-income families. While income data for college savings plans is not as prevalent as it is for prepaid tuition plans, it follows logically that low-income families would encounter the same obstacles to participation in both types of programs. Evidence indicates that even states like Florida and Alabama that offer long-term payment options in their prepaid tuition plans still attract primarily middle- and upper-income families. It probably is unrealistic under any circumstance to expect a significant participation rate among low-income families, given that this population has so little, if any, discretionary income. States must accept that, in all likelihood, savings plan trusts will remain a means of increasing affordability for middle-income families. As with prepaid tuition plans, this reality becomes problematic when considering distribution of resources, given that *all* taxpayers subsidize those savings plans that are not self-sufficient.

Aid for Part-Time Students

Although the growth in part-time students has leveled off in recent years, their numbers have increased substantially since the 1970s. The number of part-time undergraduate students nationally more than doubled from 1970 to 1996. In the 1990s, the proportion of students attending part-time hovered around 40 percent of undergraduates (ED, 1998). Despite this significant presence in higher education, few states have responded with programs designed to meet the unique financial needs of this group of students. Critics of part-time aid programs argue that there is little research that clearly demonstrates that part-time students actually have financial need, and would therefore benefit from receiving financial aid. Although examination of data at the national level on part-time student characteristics indicates that at least a significant subgroup of these students do have financial and educational needs, more detailed research would allow for more precise definitions of the level of need among today's part-time students. A research effort focused on the needs of part-time students, launched in March 2000 by the Higher Education Student Assistance Authority, is currently under way in New Jersey.

Data from NPSAS:96 indicate that only 27 percent of part-time students nationally were the traditional college age of 18 to 24 years old, and nearly half were age 30 or older. Three-quarters of these students were financially independent from their parents, and 36 percent had dependents of their own. Part-time students were twice as likely to be single parents, 16 percent in 1996. A large majority of part-time students do work; 89 percent were employed in 1996. Seventy-seven percent of those students reported working more than 20 hours per week,[28] and 64 percent reported working 35 hours or more per week. Of those who worked in 1996, 33 percent said that they worked in order to meet expenses. Overall, 59 percent of part-time students have incomes of less than $20,000, and only 24 percent have incomes of $30,000 or greater. Almost 70 percent of independent students who attend part-time have incomes of less than $20,000, and only 15 percent have incomes of $30,000 or greater. Nearly two-thirds of part-time dependent students have family incomes of less than $40,000. Despite the financial need that is evident from these data, only 28 percent received any type of aid in 1996. Eleven percent received employer aid, 6 percent received institutional aid, and 3 percent received state aid (NCES, 1996).

Data collected by the New York State Higher Education Services Corporation (HESC) on participants in their Aid for Part-Time Study Program further supports the need for assisting these students. Recipients of part-time aid in New York reflect national characteristics. In AY 1995-96, 76 percent were at least 25 years old, with an average age of 31. Eighty-seven percent were financially independent. Approximately half of the students had net taxable incomes of $10,000 or less, and only 15 percent had incomes of more than $25,000 (HESC, 1996).

Work-Study Programs

State work-study programs help students finance college by subsidizing wages in part-time employment. The subsidy makes students more attractive to potential employers, thereby increasing their chances of finding meaningful employment. Because they emphasize both access and shared financial responsibility, these programs also enjoy wide political appeal. Work-study programs provide a range of benefits to the students they serve, including exposure to valuable workplace experience. Research shows that participation in these programs actually is associated positively with both performance and persistence (Van de Water, 1996; MPR Associates, Inc., and J. D. Franz Research, 1991). A 1991 evaluation of Washington state's work-study program also indicates that participation in a work-

[28] Research shows that for full-time students, part-time work of more than 20 hours per week begins to interfere with performance and persistence (continued participation in higher education until attainment of a degree).

study program limits the amount of money that students borrow. When surveyed about what they would have done to finance college if they had not received work-study aid, 75 percent of students reported that they would have taken out a loan or a larger loan. Statistical analyses also generally support the conclusion that work-study serves as a substitute for loans (MPR Associates, Inc., and J. D. Franz Research, 1991).

Washington has operated a successful work-study program as part of its financial aid system since 1974. The program embodies many characteristics that research has shown to lead to positive student outcomes. For example, working in jobs that are located off-campus and that relate to future career goals are among the placement priorities of the program. These characteristics, along with employment occurring later in the academic career and involving training, have been shown to be associated consistently with students' career selections and employability (MPR Associates, Inc., and J. D. Franz Research, 1991). By prioritizing placements that involve community service and/or address the economic needs of the state, Washington ensures that its own needs are met. Furthermore, by obtaining employer matching funds, a greater number of students are served.

State Response to Federal Tax Credits

Since the initiation of the Clinton Administration's Hope Scholarships and Lifetime Learning tax credits, states have struggled to determine the appropriate policy response to this new direction in federal support for higher education. Unlike the federal Pell Grant, Supplemental Educational Opportunity Grant, and Work-Study programs — which address the issue of access for low-income students — tax credits are designed explicitly to ease affordability for middle-income families. Tax credits are not available to financially disadvantaged families and students who have no tax liability, since people can only benefit to the extent that they owe taxes. Critics estimate that families with incomes between $40,000 and $90,000 and students at higher-priced institutions will benefit the most, while families with incomes less than $30,000 are not likely to benefit at all. For students attending community colleges, only those with family incomes between $50,000 and $80,000 will receive full benefit of tax credits, while families with incomes around $40,000 would receive partial benefit (Conklin, 1998).

Concerns have been raised about adopting similar tax credits at the state level, as doing so would result in a loss of state revenues in order to provide further benefits for those who can already take advantage of the federal credits. Tax policies also present challenges to the effort to balance issues of access and affordability. Middle- and upper-income families utilize tax-based methods of assistance to a much greater extent than low-income families, and these methods have political and policy advantages that traditional student aid programs do not enjoy. Unlike student grant aid programs, tax provisions, once enacted, do not have to receive authorization and appropriations each year. Tax provisions also are reviewed less frequently and are less likely to be revoked, which usually occurs due to funding constraints rather than lack of participation or effectiveness. In summary, tax credits place strains on the budget process by reducing revenues, and leave traditional student aid programs — most critical for access — vulnerable to that process (The Institute for Higher Education Policy and The Education Resources Institute, 1997).

Given that federal tax credits are a reality, a number of possible state policy responses to federal tax credits have been identified that could help balance access and affordability. To ensure maximum utilization, some states are considering public information campaigns to inform citizens about how they can use federal tax credits. State policymakers also are realizing the practical problems that federal tax credits pose for people with limited resources. Families receive the benefits of tax credits only after their taxes are filed, which can be as much as eight months after the semester in which the credit was "earned."

Policy Recommendations

The following recommendations are designed to increase the capacity of New Jersey's higher education system to meet the future needs of a projected growing student body, particularly among populations who have demonstrated the greatest financial and educational needs in the past. As a national leader in helping students finance their education, New Jersey is in a unique position to emphasize the importance of renewed state investment in higher education. The challenge for New Jersey will be maintaining its priority focus on need-based aid as demand for these programs increases and concerns about access and affordability become even greater. In order to meet this challenge, New Jersey must:

Establish the New Jersey College Opportunity Trust Fund as a safeguard against the uncertainty associated with future demand.

New Jersey has an impressive history of establishing trust funds to meet a broad array of public policy goals. For example, the New Jersey Children's Trust Fund, the Garden State Preservation Trust Fund, and the New Jersey Historic Trust all were established by legislative action to preserve and protect valuable state resources. Financing higher education for themselves and/or for their children is a topic of increasing concern for many people. A public opinion poll conducted in May 1999 by Penn, Schoen, and Berland Associates found that 88 percent of New Jersey's adults are concerned that "many children may not be able to attend college due to rising costs" and 77 percent are worried that "their own children may not be able to attend college due to rising costs." New Jersey's citizens also realize the importance of a college education for their children and for their state. The same poll found that 93 percent of citizens believe a college education results in marketable skills for the workplace, and 70 percent of those with children believe that a college degree is "much more important" than it was 10 years ago (NJASCU, 1999).

Trust funds generally are run by a board composed of private citizens and representatives of both government agencies and private foundations. They represent public/private partnerships, and thereby distribute responsibility across those groups who are likely to benefit from actions of the trust. Funds for a New Jersey College Opportunity Trust Fund could be generated from a combination of sources, including state appropriations, corporate and private sponsorship, and individual contributions. Management of the trust would ensure that, after a certain level of public and private funds had been generated, interest earnings would become a significant component of maintaining the trust. Given its current realm of responsibility and its authority to issue revenue bonds, the Higher Education Student Assistance Authority is one logical candidate to govern the trust.

The main purpose of such a trust fund would be to address emerging needs and to inject stability into the higher education finance system during a time when its capacity is jeopardized by growing demand. The trustees would be charged with the task of making decisions that impact the issues of access and affordability in New Jersey, and they would be chosen based on their expertise and experience. Foremost, the trust would focus on serving the needs of students in the higher education system. This trust also would help protect the viability of the state's current aid programs during times when unforeseen demand or unpredicted levels of need arise. Therefore, the trust fund could augment and expand upon the types of support provided through existing aid programs. Trust fund resources could be used to support both low- and middle-income students, or those with other needs defined by the trust fund managers.

Modify the TAG program to ensure that the neediest students continue to be served.

After a period when the 18 to 24 year-old age group was declining, New Jersey is now in the midst of a period of significant growth. The 18 to 24 year-old population will grow by 24 percent between 1996 and 2006 (New Jersey Department of Labor, 1998b). The number of high school graduates is projected to increase 30 percent from AY 1995-96 to AY 2007-08 (WICHE, 1998). Projections also indicate that non-white groups, which have traditionally shown the most need, will continue to grow much faster than the white population. These population changes will jeopardize the viability of the TAG program's focus on access. In order to continue awarding meaningful grants to the neediest students, it is recommended that the scope of the TAG program be adjusted modestly. For example, eligibility for TAG assistance for those with less financial need (or higher NJEIs as determined by need analysis) could be phased out, allowing TAG to target the neediest populations.

Establish a need-based financial aid program specifically for part-time students.

For many adults, part-time education is the only viable option. Because of the projected growth in the need for college-educated workers in the labor market, it is in New Jersey's best economic interests to support this group of students. A *separate* need-based financial aid program would address the needs of the part-time student population, without putting additional stress on the TAG program at a time when demand is increasing. A separate program also could boost the success of the program by creating a unique constituency whose needs can be defined more clearly in the policy process. The history and current status of New York's Aid for Part-Time Study program can guide the initiation of New Jersey's own program. New York's program was signed into law in 1984, and served 6,456 recipients initially. By AY 1995-96, the state provided $14.6 million for 23,675 part-time students (HESC, 1996).

In beginning its own part-time student aid program, New Jersey officials would have to give important consideration to which eligibility criteria would be necessary to maximize investment in this group of students. New York currently provides tuition awards only to matriculated part-time students enrolled in approved undergraduate degree programs or registered certificate programs at degree-granting institutions. New York also imposes residency and academic standing criteria. Over the history of the program, the minimum number of credits has been lowered from six to three, and the requirements to have accrued six credits and apply for a federal Pell Grant were eliminated. In 1990, the income limits were raised to their current levels of $50,550 for dependent students and $34,250 for independent students (HESC, 1996).

An allocation mechanism also must be adopted. New York currently distributes appropriated dollars to institutions based on the percentage of total part-time students enrolled at each institution. Institutions then award grants to part-time students. The number and amount of awards are determined using both state and institutional criteria.

Establish a model state work-study program that emphasizes students' educational or career goals.

A New Jersey work-study program could have a major impact on the increasing numbers of financially needy students in the state by providing them with assistance that is related to their academic or employment goals. This approach would have benefits for both individuals and the state.

Particularly in initial years when the program is likely to be smaller, awards under a new work-study program should be concentrated on students

who are later in their academic careers, when the benefits to both students and employers are greatest. The work-study funds could be used to offset partially a portion of the grant funds that the students may have received earlier in their academic careers, thereby freeing much-needed grant money for first and second year students, when it is most likely to have the greatest impact on persistence (Tinto, 1987).[24]

In establishing its own program, New Jersey can learn from the state of Washington's experience in operating a successful work-study program for more than two decades. New Jersey should prioritize employment opportunities that are off-campus, related to students' goals, and address the economic and/or community service needs of the state. A program designed with the intent of obtaining employer matching funds would maximize the number of students that can be served with state funds. For example, in the first year of Washington's program, the state provided $506,000 for 1,100 students. In the most recent year, Washington's program is providing nearly $20 million to 9,500 students, $5 million of which comes from employers (HECB, 1999). The work-study program pays up to 80 percent of wages for students employed by a public institution, compared to only up to 65 percent of wages for students employed off-campus. The employer also pays all employer taxes and benefits. The administrative aspects of Washington's program currently rest with the Higher Education Coordinating Board; institutions serve such roles as locating employers, matching students with appropriate jobs, and monitoring and maintaining records (MPR Associates, Inc. and J. D. Franz Research, 1991). New Jersey would need to establish a similar system to carry out its own program. If deemed appropriate, funds from the New Jersey College Opportunity Trust Fund suggested previously could be used to stimulate the development of a state work-study program.

Create a performance bonus as part of the TAG and/or EOF programs.

New Jersey currently rewards academic success in high school with its recently expanded group of merit scholarships. Rewarding success and encouraging persistence in college, particularly among low-income students for whom persistence presents greater difficulty, also is in the best interest of the state. Adding a performance bonus to the TAG and/or EOF programs would accomplish this goal. Yearly bonuses of $1,000 above the financial aid award, up to the cost of attendance, could be given to students who achieved a certain academic criteria, such as a 3.0 grade point average, for the preceding academic year. This bonus would encourage achievement and college completion among New Jersey's neediest students, thereby safeguarding the state's investment in their postsecondary education.

Develop policies to maximize the benefits of federal tax credits for New Jersey families.

Federal tax credits have now become a reality despite concerns about their effects on access. New Jersey currently offers a tax benefit for dependent students under 22 years of age attending college full time in the form of a $1,000 income exemption on state taxes. This translates to savings of approximately $65 for those in the top taxpaying bracket (NJASCU, 2000). Rather than expanding its current tax benefits for education, New Jersey should respond to the federal tax credits with policies that encourage full utilization of the tax credits among all eligible families. These policies could include:

- *Launching a public information campaign to increase awareness of federal tax credits for higher education.* New Jersey could address middle-income citizens' concerns about affordability, in part, by taking steps to increase utilization of federal tax credits.

[24] Research indicates that approximately three-quarters of those students who leave higher education do so in the first two years.

Maximizing participation in the federal Hope Scholarship and Lifetime Learning tax credit programs would benefit the state by eliminating redundancy across state and federal programs. A public information campaign would be designed to increase awareness of federal tax credits and provide valuable information on how eligible families and students can get maximum benefits. Eliminating public confusion surrounding the new federal tax credit program should lead to increased participation.

- *Providing short-term loans to make it easier for families to take advantage of the federal tax credits.* New Jersey also could increase utilization of the federal tax credits by relieving one of the practical burdens inherent in tax credit benefits. Because tax credits are not received until as much as eight months after the semester in which they are earned, providing short-term loans could encourage more families to take advantage of the program. New Jersey could establish a separate "bridge" loan program to address this need or incorporate these loans into its current NJCLASS system. Loans would be given at the time an eligible student enrolls and would be repaid upon receipt of the tax credit.

As the nation moves into the 21st century, economic growth will become only more dependent on the skills that a college education provides. A significant foundation of college-educated citizens will be critical to New Jersey maintaining its place as one of the most economically vibrant states. The demographic forecast for New Jersey indicates that the potential demand for access to postsecondary education, particularly among those populations demonstrating the greatest financial and educational needs, poses a threat to the integrity of its current aid programs, placing the state at an important juncture. New Jersey has a history of prioritizing need-based financial aid and educational support as vehicles of maintaining access for all people. The state must now reevaluate the capacity of its higher education financing system, build on its strong history, and renew its investment in higher education. New Jersey's citizens are its most valuable resource; the future of the state will reflect its level of investment in their future.

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